

COUNTY OF YORK

MEMORANDUM

DATE: September 19, 2002 (BOS Mtg. 10/1/02)

TO: York County Board of Supervisors

FROM: James O. McReynolds, County Administrator

SUBJECT: York County Retiree Health Savings Plan

Issue:

Over the past few years, the cost of medical care has risen significantly. In particular, retirees, living on fixed incomes, face the difficult decision of how to pay for these rising costs. It is not unusual for employees to delay their retirement because the cost of medical care, including health insurance, is so prohibitive.

Background:

Staff has been investigating ways that we might help County retirees with the high cost of health insurance and other medical costs. Staff has discovered that one way we can assist is through a program that will establish a retiree health savings plan. This type of savings plan can be established without creating significant fiscal impact for the County. Contributions to the plan would come from amounts that would otherwise be paid to the employees upon their separation from the County (i.e. – unused annual and sick leave balances).

Staff has evaluated several plans and believes the plan administered by the International City Management Association (ICMA) best meets the needs of York County. The ICMA already administers the County's existing deferred compensation plan (457 plan) previously approved by the Board.

A retiree health savings plan is an employer-sponsored savings vehicle that allows employees to accumulate assets to pay for medical expenses in retirement on a tax-free basis. The County creates an entity or trust, and under the IRS code, that trust is not taxable. Contributions to the plan are made directly by the employer. Deposits into the trust earn interest and since the funds are used to pay for qualifying medical expenses, the withdrawals, including interest earned, are tax-free.

Contributions would come entirely from the value of unused leave (which currently is paid to an employee at separation or retirement). Employees would be eligible to participate after twenty years service or at the time they become eligible for full, unreduced Virginia Retirement System (VRS) retirement benefits. The ICMA, who would manage the program for the County, would charge the County a small administrative fee of \$25 per year for each employee who participates in the program. It should be noted that the ICMA might waive this minimal fee at some future date when the total investments that County employees have in our existing 457 plan reaches a higher level.

Staff does not believe that the proposed York County Retiree Health Savings Plan is a cure-all for the high cost of medical expenses for our future retirees. Nonetheless, the York County Retiree Health Savings Plan will, in conjunction with the retiree health insurance program implemented on July 1, 2002, help retired County employees cope with these increasing costs. Participating retirees could use the accumulated funds to pay for "qualifying medical expenses." The IRS defines qualifying medical expenses to include insurance premiums, co-payments to doctors, transportation to and from doctors' offices, prescriptions, and most other medical expenses. In addition, this type of plan will strengthen the County's benefit structure which is crucial in attracting qualified applicants and retaining a high quality workforce.

Recommendation:

It is recommended that the Board adopt the attached proposed Resolution R02-44, to approve the proposed Retiree Health Savings Plan.

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Attachment: Proposed Resolution R02-44